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SUBJECT: BRAZIL: UNDER SECRETARY JEFFERY'S MEETINGS WITH GoB
OFFICIALS

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11. (SBU) Summary: Under Secretary Reuben Jeffery and delegation met with Acting Minister of Mines and Energy, Nelson Hubner; Vice President Jose Alencar; and senior Ministry of Finance officials during his August 20 visit to Brasilia. Hubner said he saw an immediate need to showcase a biofuels production success story to refute the claim that biofuel production would lead to food shortages. GoB officials at the meeting noted the importance of the USG climate change initiative. The meeting with Vice President Alencar focused on Brazil's infrastructure needs and proposed a U.S.-Brazil public-private partnership to improve one airport as a model for foreign investment in infrastructure development. He also pointed to the need for foreign investment in the country's waterways, railways and ports, and suggested that some energy sectors, such as hydroelectric and nuclear, might be receptive to external investors. Ministry of Finance officials showcased Brazil's strong macroeconomic progress and told the Under Secretary that the GoB was progressing towards eventual acceptance of bilateral investment treaties (BITs). They also emphasized the need to build the biofuels market and develop related financial instruments. The Ministry of Finance officials noted that Brazil had only recently emerged as a donor nation and acknowledged that the GOB needed to make decisions on assistance issues, such as contributing towards relieving the Liberian IMF arrears. End Summary.

Meeting with Acting Minister of Mines and Energy

12. (U) Under Secretary Reuben Jeffery and delegation met with Acting Minister of Mines and Energy, Nelson Hubner, Ambassador Antonio Simoes of the Ministry of Exterior Relations, and various other GoB officials. The discussion centered on biofuels and the USG climate change initiative.

-- Biofuels

13. (SBU) Hubner said the U.S. and Brazil should use their collective advantages in biofuel technology and auto production to promote industry standardization. He noted that although biodiesel standardization might take longer, he believed ethanol standardization was well on its way. Simoes reported that experts from the Brazilian standardization agency (INMETRO) were working with NIST and other institutions with a goal of establishing, by

year-end, criteria to move the standardization discussion to the International Biofuels Forum (IBF).

¶4. (SBU) Hubner suggested that the MOU wording was too general and, as a result, might preclude a concrete plan of action. He also said that it was crucial to showcase a success story to refute the claim that biofuel production would lead to food shortages - a claim that he said was ideologically driven. To combat this perception, he suggested using the experiences of small farms in Nicaragua that produce sustainable biodiesel without sacrificing food supply.

-- Climate Change Initiative

¶5. (SBU) Simoes underscored the importance of the USG climate change initiative to the GoB and affirmed his government's participation in the initiative. Simoes highlighted Brazil's view that the U.S., as a non-signatory to the Kyoto Protocol, placed more emphasis on energy efficiency and expense than the environment. He added that both countries should focus on underlining their partnership in promoting alternative energy such as biofuels.

¶6. (SBU) The Under Secretary said the September Major Economies Meeting (MEM) on climate change was a beginning that he hoped, over the next 18 months, would lead to the achievement of a global greenhouse emissions goal involving the creation of national plans and intermediate benchmarks. He observed that several important meetings on climate change would follow the MEM and build on the dialogue established there.

Meeting with Vice President Jose Alencar

¶7. (SBU) Under Secretary Jeffery, along with Ambassador Sobel and State Department officers, discussed advancing U.S. - Brazilian infrastructure investment partnerships, promoting foreign direct investment, and biofuels with Brazilian Vice President Jose Alencar.

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-- Energy

¶8. (SBU) The Vice President told the Under Secretary that there was opportunity for a public-private partnership in non-strategic areas of the energy sector, particularly in hydroelectricity and nuclear energy. He pointed to the country's "urgent" need for vastly improved infrastructure to support its growing biofuels industry and observed that most transportation in Brazil was by road. He said the country needed to develop and improve its waterways, railways and ports to improve transport. There was, he said, the possibility of private industry involvement in these types of projects.

-- Promoting Private Investment

¶9. (SBU) The Under Secretary asked about the opportunity for private sector involvement in President Lula's Program to Accelerate Growth (PAC) and emphasized the importance of the upcoming October CEO forum in Brasilia to attracting private sector investment. As an example, Ambassador Sobel pointed out that the U.S. - Brazil forum was modeled on a similar program held in India that brought in USD 5 billion in investments to India one year later.

¶10. (SBU) Alencar appeared receptive to the possibility of increased private investment in Brazilian infrastructure projects. He suggested connecting interested U.S. companies with the appropriate ministries and Brazilian companies for further discussions.

-- A First Step? An Airport Infrastructure Partnership

¶11. (SBU) According to Alencar, the GoB saw a particular opening for private capital in its airport infrastructure plans. As a start, he suggested the participation of a U.S. company in partnership with a Brazilian firm and the GoB in the capital improvement project at one airport as a possible model for other

airport development. (He did not specify which airport would be the model.)

Meeting at the Ministry of Finance

¶12. (SBU) Under Secretary Jeffery, Ambassador Sobel and delegation met at the Ministry of Finance with Secretary for Economic Policy Bernard Appy and Secretary for International Affairs Luiz Melin.

-- Macro Overview

¶13. (SBU) Appy showcased Brazil's strong macroeconomic progress. He pointed out the sharp rise in exports over the last five years, with a corresponding increase in trade surplus and foreign reserves. Appy also noted that Brazil had gone from a negative current account as a percentage of GDP, to a positive position since 2003. Appy noted that Brazil had become the fifth largest creditor of the United States. He said the GoB was focused on improving conditions to increase growth, enhancing the credit market, advancing long term fiscal policy, and expanding investment.

-- Biofuels Market

¶14. (SBU) On biofuels, Melin discussed the need for International Biofuels Forum (IBF) agreement on compatible market standards. Calling for a "new market for a new century" with no enclaves of protectionism, he emphasized the need to build the market and develop related financial instruments.

-- Tax and Investment Treaties

¶15. (SBU) Melin said the proposed bilateral tax treaty was a political matter that the GoB was not ready to move forward. In contrast, he felt the bilateral investment treaty (BIT) was further along. He pointed to internal GoB discussions as evidence and said the next meeting of Brazil's Foreign Council would address the BIT format.

-- Liberian Arrears

¶16. (SBU) On the issue of Liberian arrears, Melin said that Brazil had to become accustomed to its new role as a donor country. He said that he expected the GoB to determine soon how much of a contribution it would make.

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¶17. (U) This cable was cleared by Tom Pierce in E.

Sobel